HENGTEN NETWORKS GROUP LIMITED

恒 騰 網 絡 集 團 有 限 公 司

(a company incorporated in Bermuda with limited liability)

(Stock Code: 136)

Interim Report **2021**

Contents

Corporate Information

The corporate information of HengTen Networks Group Limited as at the date of this report (30 August 2021) is as follows:

DIRECTORS

Executive Directors

Mr. Ke Liming *(Chairman)*
Mr. Xu Wen
Mr. Wan Chao
Mr. Chen Cong

Independent Non-executive Directors

Mr. Chau Shing Yim, David
Mr. Nie Zhixin
Mr. Chen Haiquan
Professor Shi Zhuomin

AUDIT COMMITTEE

Mr. Chau Shing Yim, David *(Chairman)*
Mr. Nie Zhixin
Mr. Chen Haiquan

REMUNERATION COMMITTEE

Mr. Chau Shing Yim, David *(Chairman)*
Mr. Ke Liming
Mr. Nie Zhixin

NOMINATION COMMITTEE

Mr. Ke Liming *(Chairman)*
Mr. Nie Zhixin
Mr. Chen Haiquan

COMPANY SECRETARY

Mr. Fong Kar Chun, Jimmy

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

23rd Floor
China Evergrande Centre
38 Gloucester Road
Wanchai
Hong Kong

SHARE REGISTRARS

Bermuda

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong

Tricor Secretaries Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Industrial and Commercial Bank of China (Asia) Limited
China Everbright Bank Co., Ltd.
Shanghai Pudong Development Bank Co., Ltd.

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

WEBSITE ADDRESS

http://www.htmimi.com

DATE OF REPORT

30 August 2021

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	13,199	13,338
Right-of-use assets	7	31,764	12,952
Intangible assets	7	688,258	2,172
Deferred tax assets		8,763	3,280
Investments accounted for using the equity method	8	20,133	—
Goodwill	24	4,214,619	—
Financial assets at fair value through other comprehensive income		546	553
Prepayments		7,994	6,595
Prepayments for film and television programmes rights	9	22,992	—
Film and television programmes rights	10	1,812,165	—
		6,820,433	38,890
Current assets			
Film and television programmes rights	10	296,369	—
Inventories		8,700	8,840
Prepayments and other current assets		74,785	21,465
Trade and other receivables	11	454,154	154,987
Financial assets at fair value through profit or loss	12	54,710	17,967
Cash and cash equivalents		597,857	1,031,092
		1,486,575	1,234,351
Total assets		8,307,008	1,273,241
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	13	180,467	161,228
Share premium	13	7,752,893	4,511,147
Other reserves	14	42,652	46,481
Accumulated losses		(5,983,864)	(3,535,688)
		1,992,148	1,183,168
Non-controlling interest		1,148	—
Total equity		1,993,296	1,183,168

Condensed Consolidated Statement of Financial Position (Continued)

	Notes	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	15	150,000	—
Lease liabilities		16,975	11,811
Deferred tax liabilities		496,273	—
Contingent consideration payable	24	3,321,677	—
		3,984,925	11,811
Current liabilities			
Trade payables	16	218,634	8,116
Film and television programmes investment funds from investors	17	178,163	—
Contract liabilities		53,913	4,196
Accrual and other payables	18	143,907	60,103
Current income tax liabilities		56,146	920
Lease liabilities		17,185	4,927
Contingent consideration payable	24	1,660,839	—
		2,328,787	78,262
Total liabilities		6,313,712	90,073
Total equity and liabilities		8,307,008	1,273,241

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Ke Liming
Director

Chen Cong
Director

Condensed Consolidated Statement of Comprehensive Income

	Notes	Six months ended 30 June 2021 (Unaudited) RMB'000	Six months ended 30 June 2020 (Unaudited) RMB'000
Revenue	6	1,395,040	113,280
Cost of revenue	19	(909,160)	(49,390)
Gross profit		485,880	63,890
Other income		2,874	6,117
Other expenses		—	(916)
Other (losses)/gains — net	20	(2,558,283)	2,193
Selling and marketing costs	19	(237,337)	(34,938)
Administrative expenses	19	(75,896)	(27,430)
Net (provision)/reversal of impairment losses on financial assets		(15,230)	6
Operating (loss)/profit		(2,397,992)	8,922
Finance costs		(5,875)	(1,654)
Finance income		3,439	7,503
Finance costs — net	21	(2,436)	5,849
(Loss)/profit before income tax		(2,400,428)	14,771
Income tax expenses	22	(48,358)	(7,591)
(Loss)/profit for the period		(2,448,786)	7,180
Other comprehensive (expense)/income			
Items that may be reclassified to profit or loss			
Changes in the fair value of debt instruments at fair value through other comprehensive income		(7)	(64)
Currency translation difference		(4,513)	13,844
Other comprehensive (expense)/income for the period, net of tax		(4,520)	13,780
Total comprehensive (expense)/income for the period		(2,453,306)	20,960

Condensed Consolidated Statement of Comprehensive Income (Continued)

	Notes	Six months ended 30 June 2021 (Unaudited) RMB'000	Six months ended 30 June 2020 (Unaudited) RMB'000
(Loss)/profit for the period attributable to:			
Equity holders of the Company		(2,448,081)	7,180
Non-controlling interests		(705)	—
		(2,448,786)	7,180
Total comprehensive (expense)/income for the period attributable to:			
Equity holders of the Company		(2,452,601)	20,960
Non-controlling interests		(705)	—
		(2,453,306)	20,960
(Loss)/earning per share for (loss)/profit attributable to the equity holders of the Company for the period: (expressed in RMB cents per share)			
Basic (loss)/earning per share	23	(26.87)	0.0089
Diluted (loss)/earning per share	23	(26.87)	0.0089

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Changes in Equity

	Unaudited						
	Attributable to equity holders of the Company						
	Share capital RMB'000 (Note 13)	Share premium RMB'000 (Note 13)	Other reserves RMB'000 (Note 14)	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2020	150,172	4,454,940	80,890	(3,544,451)	1,141,551	—	1,141,551
Comprehensive income							
Profit for the period	—	—	—	7,180	7,180	—	7,180
Other comprehensive income							
Changes in the fair value of debt instruments at fair value through other comprehensive income	—	—	(64)	—	(64)	—	(64)
Currency translation difference	—	—	13,844	—	13,844	—	13,844
Total other comprehensive income	—	—	13,780	—	13,780	—	13,780
Total comprehensive income	—	—	13,780	7,180	20,960	—	20,960
Transactions with equity holders							
Transfer to statutory reserve	—	—	3,135	(3,135)	—	—	—
Total transactions with equity holders	—	—	3,135	(3,135)	—	—	—
Balance at 30 June 2020	150,172	4,454,940	97,805	(3,540,406)	1,162,511	—	1,162,511

Condensed Consolidated Statement of Changes in Equity (Continued)

	Unaudited						
	Attributable to equity holders of the Company						
	Share capital RMB'000 (Note 13)	Share premium RMB'000 (Note 13)	Other reserves RMB'000 (Note 14)	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2021	161,228	4,511,147	46,481	(3,535,688)	1,183,168	—	1,183,168
Comprehensive expense							
Loss for the period	—	—	—	(2,448,081)	(2,448,081)	(705)	(2,448,786)
Other comprehensive expense							
Changes in the fair value of debt instruments at fair value through other comprehensive income	—	—	(7)	—	(7)	—	(7)
Currency translation difference	—	—	(4,513)	—	(4,513)	—	(4,513)
Total other comprehensive expense	—	—	(4,520)	—	(4,520)	(705)	(4,520)
Total comprehensive expense	—	—	(4,520)	(2,448,081)	(2,452,601)	(705)	(2,453,306)
Transactions with equity holders							
Non-controlling interest arising from business combinations (Note 24)	—	—	—	—	—	1,853	1,853
Deemed contribution from a shareholder	—	—	596	—	596	—	596
Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax	19,239	3,241,746	—	—	3,260,985	—	3,260,985
Transfer to statutory reserve	—	—	95	(95)	—	—	—
Total transactions with equity holders	19,239	3,241,746	691	(95)	3,261,581	1,853	3,263,434
Balance at 30 June 2021	180,467	7,752,893	42,652	(5,983,864)	1,992,148	1,148	1,993,296

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Cash Flows

	Note	Six months ended 30 June 2021 (Unaudited) RMB'000	Six months ended 30 June 2020 (Unaudited) RMB'000
Cash flows from operating activities			
Net cash used in operations		**(467,089)**	(190,401)
Interest paid		**(5,104)**	(1,336)
Interest received		**3,439**	7,503
Income tax paid		**(7,001)**	(9,005)
Net cash used in operating activities		**(475,755)**	(193,239)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,688)**	(862)
Purchase of intangible assets		**(184)**	(27)
Purchase of financial assets at fair value through profit or loss		**(29,504)**	(10,446)
Proceeds from disposal of property, plant and equipment		**12**	—
Proceeds from disposal of financial assets at fair value through profit or loss		**—**	1,943
Cash acquired from business combination		**89,986**	—
Dividend income received		**18**	29
Net cash used in/(generated from) investing activities		**58,640**	(9,363)
Cash flows from financing activities			
Repayment of borrowings		**(5,000)**	(27,273)
Principal elements of lease payments		**(7,866)**	(6,534)
Net cash used in financing activities		**(12,866)**	(33,807)
Net decrease in cash and cash equivalents		**(429,981)**	(236,409)
Cash and cash equivalents at beginning of period		**1,031,092**	1,313,301
Exchange (loss)/gain on cash and cash equivalents		**(3,254)**	13,388
Cash and cash equivalents at end of period		**597,857**	1,090,280

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to The Condensed Consolidated Interim Financial Information

1 GENERAL INFORMATION

HengTen Networks Group Limited (the "Company") was incorporated in Bermuda with limited liability and is engaged in investment holding. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company is an investment holding company. The Company and its subsidiaries (the "Group") are principally engaged in film and television programmes production, distribution and online streaming platform business, internet community services and related businesses, manufacture and sales of accessories for photographic and electrical products and investment and trading of securities.

The Company had its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

This condensed consolidated interim financial information is presented in thousands of Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the board of directors of the Company on 30 August 2021.

This condensed consolidated interim financial information has not been audited.

Key event for the current reporting period

During the six months ended 30 June 2021, the Group acquired a total of 100% equity interest in Virtual Cinema Entertainment Limited and its subsidiaries ("Virtual Cinema"). Details of the acquisition are disclosed in Note 24.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2021 ("Interim Financial Information") has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Notes to The Condensed Consolidated Interim Financial Information (Continued)

3 ACCOUNTING POLICIES

The Interim Financial Information does not include all the notes of the type normally included in an annual financial report. Accordingly, the Interim Financial Information is to be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), and any public announcements made by the Group during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards and the acquisition of Virtual Cinema as set out below.

(a) New and amended standards adopted by the Group

The following amendments to standards are mandatory for the Group's financial year beginning on 1 January 2021 for the Group:

Amendment to HKFRS 16	COVID-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

The adoption of the above new and amended standards did not have any significant impact on the Group's accounting policies and did not require retrospective adjustments.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

3 ACCOUNTING POLICIES (Continued)

(b) New and amendments to existing standards have been issued but are not effective for the financial year beginning on 1 January 2021 and have not been early adopted by the Group

		Effective for accounting periods beginning on or after
Amendments to HKFRS 3	Business Combinations — Reference to Conceptual Framework	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Provisions, Contingent Liabilities and Contingent Assets — Onerous Contracts	1 January 2022
Annual Improvements	Annual Improvements to HKFRSs 2018–2020 (amendments)	1 January 2022
Revised Accounting Guideline 5	Merger Accounting for Common Control Combination	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1	Presentation of Financial Statements on Classification of Liabilities	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments. According to the preliminary assessment made by the directors, no significant impact on the financial performance and position of the Group is expected when they become effective.

(c) Accounting policies adopted by the Group upon the acquisition of Virtual Cinema

Principles of consolidation and equity accounting

(i) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

3 ACCOUNTING POLICIES (Continued)

(c) Accounting policies adopted by the Group upon the acquisition of Virtual Cinema (Continued)

Principles of consolidation and equity accounting (Continued)

(ii) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

3 ACCOUNTING POLICIES (Continued)

(c) Accounting policies adopted by the Group upon the acquisition of Virtual Cinema (Continued)

Business combinations (Continued)

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Intangible assets

(i) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(ii) Licences

Separately acquired licences are shown at historical cost. Licences acquired in a business combination are recognised at fair value at the acquisition date. Licenses with indefinite useful life are not amortised, but are subject to annual impairment assessment.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

3 ACCOUNTING POLICIES (Continued)

(c) Accounting policies adopted by the Group upon the acquisition of Virtual Cinema (Continued)

Intangible assets (Continued)

(iii) Software

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets.

Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Film and television programmes rights

(i) Film and television programmes rights under production

Film and television programmes rights under production are carried at cost, less accumulated impairment loss. Cost includes all direct costs associated with the production of films and television programmes rights.

Film and television programmes rights under production are transferred to "film and television programmes rights completed" upon completion of production.

(ii) Film and television programmes rights completed

Film and television programmes rights completed are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Amortisation for these films are charged to profit or loss over the period of the first release of the films through various distribution channels, such as theatrical release, television release or internet release, and other licensing arrangement. Cost of television programmes rights is charged to profit or loss upon the delivery of master tapes of the respective television programmes.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

3 ACCOUNTING POLICIES (Continued)

(c) Accounting policies adopted by the Group upon the acquisition of Virtual Cinema (Continued)

Film and television programmes rights (Continued)

(iii) Licensed film and television programmes rights

Licensed film and television programmes rights represent the Group's investments in film and television programmes rights licenses. The Group acquired or licensed rights from third parties for broadcasting of films or television programmes series on its online video platform or sub-licensing the license rights to other parties. Licensed film and television programmes rights are carried at cost, less accumulated amortisation and accumulated impairment losses, if any.

Licensed film and television programmes rights are amortised on a straight-line basis over their estimated useful lives of one to ten years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimation being accounted for on a prospective basis.

(iv) Derecognition

Film and television programmes rights are derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of film and television programmes rights, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Film and television programmes investment funds from investors

The amounts represent investments made by certain investors in respect of film rights developed by the Group and the amounts payable to these investors. In accordance with the terms of the respective investment agreements, the investors are entitled to the rights to recoup their investment amounts as appropriate by the predetermined percentage of income to be generated from the films. The financial liabilities are measured at amortised cost.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of services in the ordinary course of the Group's activities.

Revenue is recognised when or as the control of the services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the services may be transferred over time or at a point in time.

Control of the goods or services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

3 ACCOUNTING POLICIES (Continued)

(c) Accounting policies adopted by the Group upon the acquisition of Virtual Cinema (Continued)

Revenue recognition (Continued)

If control of the services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the services. Specific criteria where revenue is recognised are described below.

When either party to a contract has performed, the Group presents the contract in the combined statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a service to the customer, the Group presents the contract as a contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Revenue is recognised when specific criteria have been met for the Group's activity as described below:

(i) Content production

The Group invests in and produces entertainment content such as film and television programmes series.

Revenue from share of box office of film is recognised when the film is shown and the right to receive payment is established.

Revenue from the licensing of television programmes rights is recognised upon the delivery of the master tapes to the customers, in accordance with the terms of the underlying contracts.

(ii) Online Streaming platform

The Group operates an online streaming platform and provides the users with membership services.

Revenue is recognised over time during the period of membership as the users simultaneously receives and consumes the benefits provided by the membership services.

Film investment income

Film investment income is recognised in profit or loss when the right to receive payment is established.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

The following new significant judgement is made by the management in preparing this condensed consolidated interim financial information. Other significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

(a) Revenue derived from content production income

In making the judgement, the directors of the Group considered the detailed criteria included satisfying the performance obligations and the right to receive payment for the recognition of revenue derived from content production and measurement of film investment income set out in the applicable standards. In the event where the aforementioned criteria are met but the final box office income statement of the relevant film has not yet been received, judgement is required to estimate the revenue and related costs of the film investment.

(b) Measurement, amortisation and impairment of film and television programmes rights classified as intangible assets

At the end of each reporting period, the directors of the Group assessed the amortisation policy and expected useful lives of the film and television programmes rights classified as intangible assets. The determination of amortisation policy and expected useful lives requires management's significant judgement.

The Group amortises the film and television programmes rights completed based on the management's assessment of their potential benefits brought to the Group and the expected consumption pattern.

Based on the management's assessment, amortisation of film is charged to profit or loss over the period of the first release of the films through various distribution channels, such as theatrical release, television release or internet release, and other licensing arrangement. Cost of television programmes rights is charged to profit or loss upon the delivery of master tapes of the respective television programmes.

Other than the amortisation, the directors also assessed whether impairment indicator exists on film and television programmes rights classified as intangible assets and provide impairment up to its recoverable amount. For film and television programmes rights classified as intangible assets, the assessment was made on a film-by-film basis. The recoverable amount of the film and television programmes rights classified as intangible assets was determined by using the fair value less cost of disposal approach.

In determining the recoverable amount of film and television programmes rights classified as intangible assets, the Group takes into consideration both internal and external market information, for example, the sales forecasts, the production, sales and distribution costs budget and the general economic condition of the relevant markets.

(c) Estimated impairment of prepayments for film and television programmes rights

At the end of each reporting period, the management of the Group assesses whether impairment indicator exists on prepayments for film and television programmes rights based on the contract terms of the agreements, estimated budget of the proposed production and the progress on how the prepayment has been used.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (Continued)

(d) Subsidiaries arising from contractual arrangements

The Group does not hold equity shares directly or indirectly in variable interest entities ("VIE"). However, as a result of the VIE Contacts, the Group has rights to variable returns from its involvement with the VIE; and the ability to affect those returns through its power over the VIE; and is considered to have control over the VIE. Consequently, the Group regards the VIE as an indirect subsidiary. The Group has included the financial position and results of the VIE in the condensed consolidated interim financial statements.

Nevertheless, these contractual arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the VIE and uncertainties presented by the People Republic of China (the "PRC") legal system could impede the Group's beneficiary rights to the results, assets and liabilities of the VIE. The Group believes that these contractual arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

(e) Purchase consideration payable for acquisition

Fair value of contingent consideration payable

The fair value of contingent consideration payable was determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions, including post-acquisition performance of the acquired businesses and fair value of the Company's shares, which are mainly based on market conditions existing at the end of each reporting period. Changes in assumption used could materially affect the fair value of these balances and as a result affect the Group's financial condition and results of operation.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's financial performance.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2020.

There have been no changes in the Group's risk management policies since 31 December 2020.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

5.2 Fair value estimate

(a) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets measured and recognised at fair value at 30 June 2021 and 31 December 2020 on a recurring basis:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
As at 30 June 2021			
Financial assets			
Film rights investments	—	—	2,182
Financial assets at fair value through profit or loss ("FVPL") (Note 12)	54,710	—	—
Financial assets at fair value through other comprehensive income ("FVOCI")	546	—	—
	552,256	—	2,182

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
As at 30 June 2021			
Financial liabilities			
Contingent consideration payable	—	—	4,982,516

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
As at 31 December 2020			
Financial assets			
Financial assets at FVPL (Note 12)	17,967	—	—
Financial assets at FVOCI	553	—	—
	18,520	—	—

Notes to The Condensed Consolidated Interim Financial Information (Continued)

5 FINANCIAL RISK MANAGEMENT (Continued)

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2021.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted marked price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the six months ended 30 June 2021:

	Film rights investments RMB'000
As at 1 January 2021	—
Additions	2,359
Acquisition from business combination	66,222
Changes in fair values	(177)
Derecognition	(66,222)
Closing balance as at 30 June 2021	2,182

There were no transfers between levels 1, 2 and 3 during the periods.

There were no other changes in valuation techniques during the periods.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

6 SEGMENT INFORMATION

(a) Description of segments and principal activities

The chief operating decision-maker ("CODM") of the Group has been identified as the executive directors of the Company who are responsible for reviewing the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The Group is organised into three business segments: content production and online streaming business, internet community and related businesses, manufacture and sales of accessories.

The directors of the Company assess the performance of the operating segments based on a measure of segment results. Certain corporate expenses, other income, other losses and finance income — net are not included in the results for each operating segment.

(b) Segment profit/(loss)

The segment results and other segment items included in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2021 are as follows:

	Content production and online streaming business RMB'000	Internet community and related businesses RMB'000	Manufacture and sales of accessories RMB'000	Consolidated RMB'000
Revenue				
Timing of revenue recognition				
At a point in time	1,187,776	4,118	22,516	1,214,410
Over time	157,148	23,482	—	180,630
	1,344,924	27,600	22,516	1,395,040
Segment profit/(loss)	206,314	(39,021)	1	167,294
Unallocated corporate expenses				(12,079)
Unallocated other losses				(2,555,733)
Unallocated finance income — net				90
Loss before income tax				(2,400,428)
Depreciation of property, plant and equipment	264	2,107	192	2,563
Depreciation of right-of-use assets	3,830	1,320	498	5,648
Amortisation of intangible assets	1,247	159	—	1,406
Amortisation of film and TV programmes rights	187,551	—	—	187,551

Notes to The Condensed Consolidated Interim Financial Information (Continued)

6 SEGMENT INFORMATION (Continued)

(b) Segment profit/(loss) (Continued)

The segment results and other segment items included in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2020 are as follows:

	Internet community and related businesses RMB'000	Manufacture and sales of accessories RMB'000	Consolidated RMB'000
Revenue			
Timing of revenue recognition			
At a point in time	11,574	22,748	34,322
Over time	78,958	—	78,958
	90,532	22,748	113,280
Segment profit/(loss)	20,298	(1,457)	18,841
Unallocated corporate expenses			(3,823)
Unallocated other income			29
Unallocated other losses			(841)
Unallocated finance income — net			565
Profit before income tax			14,771
Depreciation	8,385	771	9,156
Amortisation	670	—	670

Notes to The Condensed Consolidated Interim Financial Information (Continued)

6 SEGMENT INFORMATION (Continued)

(c) Segment assets and liabilities

Segment assets and liabilities as at 30 June 2021 are as follows:

	Content production and online streaming business RMB'000	Internet community and related businesses RMB'000	Manufacture and sales of accessories RMB'000	Consolidated RMB'000
ASSETS				
Segment assets	7,502,336	126,498	15,021	7,643,855
Unallocated other receivables and prepayments				1,277
Financial assets at FVOCI				546
Financial assets at FVPL				54,710
Deferred tax assets				8,763
Cash and cash equivalents				597,857
Consolidated total assets				8,307,008
LIABILITIES				
Segment liabilities	(701,726)	(62,267)	(13,699)	(777,692)
Unallocated other payables				(1,085)
Contingent consideration payable				(4,982,516)
Current income tax liabilities				(56,146)
Deferred tax liabilities				(496,273)
Consolidated total liabilities				(6,313,712)

Notes to The Condensed Consolidated Interim Financial Information (Continued)

6 SEGMENT INFORMATION (Continued)

(c) Segment assets and liabilities (Continued)

Segment assets and liabilities as at 31 December 2020 are as follows:

	Internet community and related businesses RMB'000	Manufacture and sales of accessories RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	205,816	13,293	219,109
Unallocated other receivables and prepayments			1,240
Financial assets at FVOCI			553
Financial assets at FVPL			17,967
Deferred tax assets			3,280
Cash and cash equivalents			1,031,092
Consolidated total assets			1,273,241
LIABILITIES			
Segment liabilities	(75,434)	(8,354)	(83,788)
Unallocated other payables			(5,365)
Current income tax liabilities			(920)
Consolidated total liabilities			(90,073)

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable and operating segments, other than certain other receivables and prepayments, financial assets at FVOCI, financial assets at FVPL, deferred tax assets and cash and cash equivalents; and

- all liabilities are allocated to reportable and operating segments, other than certain other payables, contingent consideration payables, deferred tax liabilities and current income tax liabilities.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

7 PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

	Property, plant and equipment RMB'000	Right-of-use assets RMB'000	Intangible assets RMB'000
Six months ended 30 June 2020			
Opening net book amount at 1 January 2020	17,457	16,364	2,929
Additions	862	10,322	27
Disposals	—	—	(42)
Currency translation differences	219	—	—
Depreciation and amortisation charges (Note 19)	(3,561)	(6,217)	(670)
Closing net book amount at 30 June 2020	14,977	20,469	2,244
Six months ended 30 June 2021			
Opening net book amount at 1 January 2021	**13,338**	**12,952**	**2,172**
Additions	**1,688**	**23,252**	**184**
Acquired from business combination (Note 24)	**806**	**1,208**	**687,308**
Currency translation differences	**(63)**	**—**	**—**
Disposals	**(7)**	**—**	**—**
Depreciation and amortisation charges (Note 19)	**(2,563)**	**(5,648)**	**(1,406)**
Closing net book amount at 30 June 2021	**13,199**	**31,764**	**688,258**

Notes to The Condensed Consolidated Interim Financial Information (Continued)

8 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	30 June 2021 RMB'000
Associates	20,133

The amounts recognised in the income statement are as follows:

	Six months ended 30 June 2021 RMB'000
Share of losses of associates	(867)

(a) Investments in associates

The movements of the investments in associates are as follows:

	Six months ended 30 June 2021 RMB'000
Balance as at 1 January	—
Additions	21,000
Share of post-tax losses of associates	(867)
Balance as at 30 June 2021	20,133

As at 30 June 2021, the Group had interest in the following associates:

Name	Place of incorporation and kind of legal entity	Principal activities	Particulars of issued share capital	Percentage of ownership interest attributable to the Group
風吹不動影業(海口)有限公司 (Fengchuibuding Pictures (Haikou) Co., Ltd.)	The PRC, limited liability company	Media and film production	RMB10,000,000	20%
喜歡季節(天津)文化娛樂有限公司 (Xihuanjijie (Tianjin) Culture and Entertainment Co., Ltd.)	The PRC, limited liability company	Media and film production	RMB5,000,000	20%

Notes to The Condensed Consolidated Interim Financial Information (Continued)

9 PREPAYMENTS FOR FILM AND TELEVISION PROGRAMMES RIGHTS

	30 June 2021 RMB'000
Prepayments for film and television programmes rights	17,592
Prepayments for film directors' fees	5,400
	22,992

Prepayments for film and television programmes rights represented the prepayments made by the Group to the respective parties in relation to the film and television programmes rights. The prepayments will form part of the contribution by the Group for the investment in production of film and television programmes rights. The related terms will be further agreed between the respective parties upon signing of the agreements.

10 FILM AND TELEVISION PROGRAMMES RIGHTS

	30 June 2021 RMB'000
Film and television programmes rights completed	26,396
Film and television programmes rights under production	1,824,452
Licensed film and television programmes rights	255,504
Film rights investments	2,182
	2,108,534
Less: Current portion	(296,369)
	1,812,165

Notes to The Condensed Consolidated Interim Financial Information (Continued)

10 FILM AND TELEVISION PROGRAMMES RIGHTS (Continued)

	Film and television programmes rights completed RMB'000	Film and television programmes rights under production RMB'000	Licensed film and television programmes rights RMB'000	Film rights investments RMB'000	Total RMB'000
As at 1 January 2021	—	—	—	—	—
Acquired from business combination (Note 24)	21,805	1,536,653	26,711	66,222	1,651,391
Additions	104,118	315,876	288,740	2,359	711,093
Changes in fair values	—	—	—	(177)	(177)
Transfer	28,077	(28,077)	—	—	—
Amortisation of film and TV programmes rights	(127,604)	—	(59,947)	—	(187,551)
Derecognition	—	—	—	(66,222)	(66,222)
As at 30 June 2021	26,396	1,824,452	255,504	2,182	2,108,534

11 TRADE AND OTHER RECEIVABLES

	30 June 2021 RMB'000	31 December 2020 RMB'000
Trade receivables — gross		
— Third parties	336,818	95,783
Less: allowance for doubtful debts (b)	(25,335)	(7,055)
Trade receivables — net (a)	311,483	88,728
Other receivables due from		
— Related parties (Note 27(e))	55,427	25,137
— Other third parties	90,617	43,407
Less: allowance for doubtful debts	(3,373)	(2,285)
Other receivables — net	142,671	66,259
Total trade and other receivables	454,154	154,987

Notes to The Condensed Consolidated Interim Financial Information (Continued)

11 TRADE AND OTHER RECEIVABLES (Continued)

(a) The Group allows an average credit period ranging from 60 to 150 days to its customers. The following is an ageing analysis of trade receivables net of allowances for doubtful debts, based on the invoice date which approximates the revenue recognition date at the end of the reporting period.

	30 June 2021 RMB'000	31 December 2020 RMB'000
Within 60 days	109,511	60,855
61 days to 180 days	158,340	8,305
Over 181 days	43,632	19,568
	311,483	88,728

Due to the short-term nature of the current receivables, their carrying amounts are considered to be the same as their fair values.

(b) The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. On that basis, the loss allowance as at 30 June 2021 was determined and disclosed as below:

30 June 2021	Current RMB'000	Up to 60 days past due RMB'000	Up to 120 days past due RMB'000	Up to 180 days past due RMB'000	More than 180 days past due RMB'000	Total RMB'000
Expected loss rate	0.4%	1.2%	6.6%	22.6%	51.3%	
Gross carrying amount	15,864	7,588	3,527	1,738	37,723	66,440
Loss allowance	63	91	233	393	19,341	20,121

31 December 2020	Current RMB'000	Up to 60 days past due RMB'000	Up to 120 days past due RMB'000	Up to 180 days past due RMB'000	More than 180 days past due RMB'000	Total RMB'000
Expected loss rate	0.4%	2.5%	3.7%	21.6%	51.7%	
Gross carrying amount	60,947	7,872	5,527	15,525	5,912	95,783
Loss allowance	244	197	204	3,353	3,057	7,055

For trade receivables that do not share same risk characteristics with others, management assesses their expected credit losses on an individual basis. The management has assessed the expected credit losses based on the background and reputation of the customers, historical settlement records and past experience. Management also considered the default from external rating agent report and forward-looking information that may impact the customer's ability to repay the outstanding balance. As at 30 June 2021, the loss allowances of RMB5,214,000 was recognised for trade receivables based on individual basis.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2021 RMB'000	31 December 2020 RMB'000
Held-for-trading investments	54,710	17,967

As at 30 June 2021, held-for-trading investments represented the Group's equity investments in certain Hong Kong listed companies, which were quoted in the Stock Exchange.

The fair value of all equity securities is based on their current bid prices in an active market and the fair values are within level 1 of the fair value hierarchy (Note 5).

(a) Amounts recognised in profit or loss

During the period, the following gain/(loss) were recognised in the consolidated statement of comprehensive income:

	Six months ended	
	30 June 2021 RMB'000	30 June 2020 RMB'000
Fair value gain/(loss) on equity investments at FVPL recognised in other gains — net	6,873	(829)

Notes to The Condensed Consolidated Interim Financial Information (Continued)

13 SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares, issued and fully paid:

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000
Balance at 1 January 2020 and 30 June 2020	74,611,669,087	150,172	4,454,940
Balance at 1 January 2021	80,803,166,025	161,228	4,511,147
Share Consolidation (Note)	(72,722,849,423)	—	—
Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax	1,154,330,943	19,239	3,241,746
Balance at 1 January 2021 and 30 June 2021	9,234,647,545	180,467	7,752,893

Note: Pursuant to the share consolidation approved by the shareholders, every ten issued ordinary shares of Company had been consolidated into one ordinary share ("share consolidation"). The share consolidation became effective as from 20 January 2021.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

14 OTHER RESERVES

	Warrants reserve RMB'000	Financial assets at FVOCI RMB'000	Special reserve RMB'000	Capital Surplus RMB'000	Translation reserve RMB'000	Statutory reserve RMB'000	Reserve fund RMB'000	Enterprise expansion reserve RMB'000	Total RMB'000
Six months ended 30 June 2020									
Balance at 1 January 2020	(168)	(223)	18,888	—	24,291	35,797	1,153	1,152	80,890
Net fair value loss on financial assets at FVOCI	—	(75)	—	—	11	—	—	—	(64)
Transfer to statutory reserve	—	—	—	—	—	3,135	—	—	3,135
Exchange differences on translating foreign operations	—	—	—	—	13,844	—	—	—	13,844
Balance at 30 June 2020	(168)	(298)	18,888	—	38,146	38,932	1,153	1,152	97,805
Six months ended 30 June 2021									
Balance at 1 January 2021	**—**	**(266)**	**18,888**	**9,471**	**(22,967)**	**39,050**	**1,153**	**1,152**	**46,481**
Net fair value loss on financial assets at FVOCI	**—**	**(2)**	**—**	**—**	**(5)**	**—**	**—**	**—**	**(7)**
Deemed contribution from shareholder	**—**	**—**	**—**	**596**	**—**	**—**	**—**	**—**	**596**
Transfer to statutory reserve	**—**	**—**	**—**	**—**	**—**	**95**	**—**	**—**	**95**
Exchange differences on translating foreign operations	**—**	**—**	**—**	**—**	**(4,513)**	**—**	**—**	**—**	**(4,513)**
Balance at 30 June 2021	**—**	**(268)**	**18,888**	**10,067**	**(27,485)**	**39,145**	**1,153**	**1,152**	**42,652**

Notes to The Condensed Consolidated Interim Financial Information (Continued)

15 BORROWINGS

	30 June 2021 RMB'000
Other borrowings — unsecured	150,000

Movements in other borrowings are analysed as follows:

	30 June 2021 RMB'000
Opening amount at 1 January	—
Other borrowings obtained from business combination (Note 24)	155,000
Repayments of other borrowings	(5,000)
	150,000

The unsecured other borrowings denominated in RMB and granted from independent third parties carry fixed interest rate at 7.5% per annum.

16 TRADE PAYABLES

The ageing analysis of trade payables of the Group based on invoice date are as follows:

	30 June 2021 RMB'000	31 December 2020 RMB'000
Within 60 days	6,109	4,858
61 days to 150 days	204,613	2,916
Over 151 days	7,912	342
	218,634	8,116

The carrying amounts of trade payables approximated their fair values.

17 FILM AND TELEVISION PROGRAMMES INVESTMENT FUNDS FROM INVESTORS

The amounts represent investments made by certain investors in respect of film and television programmes rights held by the Group. In accordance with the terms of the respective investment agreements, the investors are entitled to recoup their investment amounts as appropriate by the predetermined percentage of income to be generated from the films and television programmes.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

18 ACCRUAL AND OTHER PAYABLES

	30 June 2021 RMB'000	31 December 2020 RMB'000
Other payables	**120,763**	44,995
Accrued expenses	**5,656**	8,251
Provisions for other taxes	**11,493**	6,550
Amounts due to related parties (Note 27(e))	**5,995**	307
	143,907	60,103

The carrying amounts of accruals and other payables approximate their fair values.

19 EXPENSES BY NATURE

Major expenses included in cost of sales, selling and marketing costs and administrative expenses are analysed as follows:

	Six months ended	
	30 June 2021 RMB'000	30 June 2020 RMB'000
Employees benefit expenses (including directors' emoluments)	**59,340**	42,376
Cost of inventories sold	**20,602**	23,439
Bandwidth and server custody fees	**16,930**	—
Depreciation		
— Property, plant and equipment	**2,563**	3,561
— Right-of-use assets	**5,648**	6,217
Amortisation		
— Intangible assets	**1,406**	670
— Films and TV programmes rights	**187,551**	—
Content cost	**679,103**	—
Content distribution and promotion cost	**216,127**	—
Distribution cost and payment handling fees	**20,220**	—
Software usage fees	**252**	8,524
Advertising and promotion costs	**8,398**	6,958
Rental expense	**4,314**	2,340
Travelling expense	**1,329**	1,604
Legal and professional fees	**12,836**	1,343
(Reversal of write-down)/write-down of inventories	**(632)**	543

Notes to The Condensed Consolidated Interim Financial Information (Continued)

20 OTHER (LOSSES)/GAINS — NET

	Six months ended	
	30 June 2021 RMB'000	30 June 2020 RMB'000
Fair value change in contingent consideration payable	**(2,559,766)**	—
Fair value change in financial assets at FVPL	**6,873**	(829)
Foreign exchange (loss)/gain	**(1,333)**	34
Gain on disposal of property, plant and equipment	**5**	—
Other (loss)/gain	**(4,062)**	2,988
	(2,558,283)	2,193

21 FINANCE COSTS — NET

	Six months ended	
	30 June 2021 RMB'000	30 June 2020 RMB'000
Finance costs:		
— Interest expenses on borrowings	**(5,104)**	(1,041)
— Interest expenses on lease liabilities	**(771)**	(613)
	(5,875)	(1,654)
Finance income:		
— Interest income on deposits	**3,439**	7,503
Finance (costs)/income — net	**(2,436)**	5,849

Notes to The Condensed Consolidated Interim Financial Information (Continued)

22 INCOME TAX EXPENSES

	Six months ended	
	30 June 2021 RMB'000	30 June 2020 RMB'000
Current income tax		
— Provision for the period	55,659	4,610
— Adjustments for current tax of prior years	—	(2,305)
	55,659	2,305
Deferred income tax	(7,301)	5,286
	48,358	7,591

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for both periods, based on the existing legislation, interpretations and practices in respect thereof.

No Hong Kong profits tax has been provided for during the six months ended 30 June 2021 and 2020.

The income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate of 25%, except for a subsidiary of the Group which is entitled to preferential tax rate applicable to advanced and new technology enterprises of 15% (for the six months ended 30 June 2020: 15%) on the estimated assessable profit for the period, based on the existing legislation, interpretations and practices in respect thereof.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

23 (LOSS)/EARNING PER SHARE

(a) Basic

Basic (loss)/earning per share are calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares deemed to be in issue.

	Six months ended	
	30 June 2021	30 June 2020
(Loss)/profit attributable to equity holders of the Company (RMB'000)	**(2,448,786)**	7,180
Weighted average number of ordinary shares in issue (thousands)	**9,112,802**	80,571,604
Basic (loss)/earning per share (RMB cents per share)	**(26.87)**	0.0089

(b) Diluted

There were no dilutive potential ordinary shares outstanding for the period ended 30 June 2021 and 30 June 2020. The effect of the exercise of warrants was not included in the calculation of dilutive loss per share as they are anti-dilutive during the period ended 30 June 2021.

24 BUSINESS COMBINATION

On 20 January 2021 ("acquisition date"), the Group completed its acquisition ("Acquisition") of 100% of all issued shares in Virtual Cinema Entertainment Limited, which, together with its subsidiaries and variable interest entities, is principally engaged in film and TV programme production and online streaming platform.

The consideration of the Acquisition was settled by a combination of (i) HK$3,913,182,000 (approximately RMB3,260,985,000) by way of allotment and issue of the consideration issue of 1,154,330,943 shares (after share consolidation) at the issue price of HK$3.39 (after share consolidation); and (ii) a maximum of HK$2,907,300,000 (approximately RMB2,422,750,000) of the consideration settled by by way of allotment and issue at maximum of 1,834,279,307 warrants (after share consolidation) at the initial warrants exercise price of HK$0.96 (after share consolidation) per each warrant.

The actual number of warrants to be issued is subject to the net profit of Virtual Cinema in a specified time frame following the Acquisition.

Based on the provisional purchase price allocation, the following table summarises the consideration paid for Virtual Cinema and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

24 BUSINESS COMBINATION (Continued)

Consideration	**RMB'000**
Fair value of share consideration	3,260,985
Fair value of contingent warrants consideration	2,422,750
Total consideration as at acquisition date	5,683,735

Recognised amounts of identifiable assets acquired and liabilities assumed	**RMB'000**
Property, plant and equipment	806
Right-of-use assets	1,208
Intangible assets	687,308
Prepayments for film and television programmes rights	12,213
Film and television programmes rights	1,651,391
Trade and other receivables and prepayments	135,677
Inventories	104
Cash and cash equivalents	89,986
Deferred tax assets	2,014
Trade and other payables	(282,617)
Amount due to shareholder	(67,810)
Film and television programmes investment funds from investors	(152,564)
Current income tax liabilities	(2,326)
Contract liabilities	(16,600)
Lease Liabilities	(1,265)
Borrowings	(155,000)
Deferred tax liabilities	(499,366)
Total identifiable net assets acquired	1,403,159
Non-controlling interests	(1,853)
Assignment of shareholder's loan	67,810
Goodwill on business combination	4,214,619
	5,683,735

Net cash inflow arising on acquisition of business	**RMB'000**
Cash considerations paid in the period	—
Add cash and cash equivalents in the subsidiaries acquired	89,986
Cash in flow as at acquisition date	89,986

24 BUSINESS COMBINATION (Continued)

Note:

(i) Provisional fair value of acquired identifiable assets

The fair value of the acquired identifiable assets was provisional pending receipt of the final valuations for those assets.

(ii) Goodwill on business combination

The Group recognised the goodwill of approximately RMB 4,250,771,000 as a result of the business combination. The main reason giving rise to the goodwill is the synergy brought to the Group from the combination of film and platform business.

(iii) Acquisition-related costs

Acquisition-related costs of RMB11,377,000 are included in administrative expenses.

(iv) Acquired trade and other receivables

The carrying amounts of trade and other receivables approximated their fair values. The gross contractual amount for trade receivables due is RMB69,602,000.

(v) Non-controlling interest

The non-controlling interest of acquired subsidiaries at the acquisition date was measured by proportionate share of recognised amounts of net assets amounted to RMB$1,853,000.

25 CONTINGENCIES

The Group did not have any material contingent liabilities as at 30 June 2021 and 31 December 2020.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

26 COMMITMENTS

(a) Operating leases commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2021 RMB'000	31 December 2020 RMB'000
Not later than one year	893	403

(b) Capital commitments

Capital expenditure contracted for but not yet incurred and provided for as of 30 June 2021 amounted to RMB182,672,000 (2020: Nil).

(c) Other commitments

The Group has committed to invest up to RMB53,987,000 in an investment fund.

27 RELATED PARTY TRANSACTIONS

(a) Major shareholders

Major shareholders' share percentage in the Company:	As at 30 June 2021
Solution Key Holdings Limited (a wholly owned subsidiary of China Evergrande Group "Evergrande")	37.55%
Water Lily Investment Limited (a wholly owned subsidiary of Tencent Holdings Limited)	16.90%
Mr. Ke Liming	20.50%

In addition to those disclosed elsewhere in the financial information, during the six months ended 30 June 2021 and 2020, the Group had the following significant transactions with related parties, which are carried out in the normal course of the Group's business.

Notes to The Condensed Consolidated Interim Financial Information (Continued)

27 RELATED PARTY TRANSACTIONS (Continued)

(b) Name and relationship with related parties

Name	Relationship
Shenzhen Evergrande Materials and Equipment Co., Ltd. ("深圳恒大材料設備有限公司")	A subsidiary of Evergrande
Evergrande Internet Financial Services (Shenzhen) Co., Ltd. ("恒大互聯網金融服務(深圳)有限公司")	A subsidiary of Evergrande
Guangzhou Jiasui Property Co., Ltd. ("廣州市佳穗置業有限公司")	A subsidiary of Evergrande
Hengda Intelligent Technology (Shenzhen) Co., Ltd. ("恒大智慧科技(深圳)有限公司")	A subsidiary of Evergrande
Mascotte Investments Limited	A company in which a key management personnel of the Group has controlling interest
Jinbi Real Estate Co.,Ltd. ("金碧物業集團有限公司")	A subsidiary of Evergrande
Beijing Zhumeng Qiming Culture & Arts Co., Ltd. ("北京築夢啟明文化藝術有限公司")	Controlled by major shareholder
Beijing Ruyi Xingrong Culture Media Co., Ltd. ("北京儒意興榮文化傳媒有限公司")	Controlled by a close family member of the major shareholder
Beijing Ruyi Xinxin Film Investment Co., Ltd ("北京儒意欣欣影業投資有限公司")	Controlled by major shareholder
Beijing Fanhua Jiutian Film Co., Ltd. ("北京繁花九天影業有限公司")	Controlled by major shareholder
Yongxin Changqingteng Culture Service Center (Limited Partnership) ("永新縣常青藤文化服務中心(有限合夥)")	Controlled by major shareholder
Shengjing Bank (盛京銀行股份有限公司)	Common major shareholder
Mr. Ke Liming	Major shareholder

Notes to The Condensed Consolidated Interim Financial Information (Continued)

27 RELATED PARTY TRANSACTIONS (Continued)

(c) Transactions with related parties

		Six months ended	
		30 June 2021	30 June 2020
		RMB'000	RMB'000
(i)	Rental expenses:		
	Guangzhou Jiasui Property Co., Ltd.	**1,513**	992
	Mascotte Investments Limited	**600**	655
		2,113	1,647
(ii)	Property Management Expenses:		
	Evergrande Jinbi Property Management Co., Ltd.	**243,728**	—
(iii)	Revenue from network equipment usage and maintenance service:		
	Evergrande Internet Financial Services (Shenzhen) Co., Ltd.	**—**	3,664

(d) Key management compensation

	Six months ended	
	30 June 2021	30 June 2020
	RMB'000	RMB'000
Key management compensation:		
— Salaries and other benefits	**1,686**	1,924

Notes to The Condensed Consolidated Interim Financial Information (Continued)

27 RELATED PARTY TRANSACTIONS (Continued)

(e) Balances with related parties

As at 30 June 2021 and 31 December 2020, the Group had the following significant balances with related parties:

	30 June 2021 RMB'000	31 December 2020 RMB'000
Due from related parties:		
— Evergrande Internet Financial Services (Shenzhen) Co., Ltd.	2,760	7,280
— Hengda Intelligent Technology (Shenzhen) Co., Ltd.	4,736	4,736
— Shenzhen Evergrande Materials and Equipment Co., Ltd.	5,177	11,964
— Guangzhou Jiasui Property Co., Ltd.	—	1,157
— Beijing Zhumeng Qiming Culture & Arts Co., Ltd	1,300	—
— Beijing Ruyi Xingrong Culture Media Co., Ltd.	800	—
— Beijing Ruyi Xinxin Film Investment Co., Ltd	33,218	—
— Beijing Fanhua Jiutian Film Co., Ltd.	236	—
— Mr. Ke Liming	7,200	—
	55,427	25,137
Due to related parties:		
— Evergrande Jinbi Property Management Co., Ltd.	—	307
— Guangzhou Jiasui Property Co., Ltd	190	—
— Yongxin Changqingteng Culture Service Center (Limited Partnership)	400	—
— Beijing Ruyi Xinxin Film Investment Co., Ltd	5,405	—
	5,995	307
Bank balances with related parties:		
— Shengjing Bank	80,002	—
	80,002	—

Management Discussion and Analysis

During the six months ended 30 June 2021, the Group acquired a total of 100% equity interest in Virtual Cinema Entertainment Limited and its subsidiaries, including those in operation of Ruyi Films (儒意影業) ("**Ruyi Films**") and Pumpkin Films (南瓜電影) ("**Pumpkin Films**"). Upon completion of the acquisition, the Group made proactive planning on the internet streaming media business and took serving users as its core work and providing high-quality cultural content as its distraction by giving full play to the professional advantages of the online streaming business team and fully capitalising on the resource advantages of its two largest shareholders, China Evergrande Group ("**China Evergrande**") (3333.HK) and Tencent Holdings Limited ("**Tencent Holdings**") (0700.HK), striving to build a streaming media platform which can provide users with the ultimate viewing experience through the impeccable production capabilities of Ruyi Films and the advanced algorithms of Pumkin Films under the Group.

FINANCIAL PERFORMANCE SUMMARY

The Group recorded a loss attributable to owners of the Company of approximately RMB2.45 billion for the six months ended 30 June 2021, which decreased by approximately RMB2.45 billion as compared to a profit attributable to owners of the Company of approximately RMB7.2 million for the six months ended 30 June 2020.

The basic and diluted earnings per share were RMB26.87 cents and RMB26.87 cents for the six months ended 30 June 2021 respectively as compared to the basic and diluted earnings per share of RMB0.089 (after share consolidation) cents and RMB0.089 cents (after share consolidation) for the six months ended 30 June 2020.

CONTENT PRODUCTION AND ONLINE STREAMING BUSINESS

During the six months ended 30 June 2021, the Group conducted its content production and online streaming business in China, and its turnover recorded was approximately RMB1.34 billion for the six months ended 30 June 2021. The costs of the streaming media business are mainly content costs, labour costs, depreciation and amortization costs. Gross profit of such segment was approximately RMB470 million with gross profit margin 35%. After deducting selling and marketing costs, administrative and other expenses of approximately RMB264 million, the segment recorded a profit before tax of approximately RMB206 million.

Management Discussion and Analysis (Continued)

I. BUSINESS REVIEW

In the first half of 2021, the Chinese government achieved significant results in COVID-19 pandemic prevention and control. Although the recurring nature of the pandemic affected the development of the film and television industry to a certain extent, the film and television works released by the Group in the first half of the year became critically acclaimed box office successes. At the same time, Pumpkin Films, one of the streaming media platforms of the Group, showed a strong growth momentum. Empowered by technologies including multi-dimensional algorithm, films are sorted in multi-dimensions and multi-perspectives. In addition, with better understanding on users and films through algorithm, users' attention and enthusiasm are effectively boosted, resulting in further expansion in user base and increase in level of customer stickiness. Hence, the streaming media business of the Group achieved rapid development in the first half of the year.

In addition, the Chinese government has introduced a series of favorable policies. For instance, the new Copyright Law, with effect from 1 June 2021, provided effective legal support for protecting copyrights of long videos. In addition, the awareness of Chinese media streaming users on the idea of paying for content and the concept of copyright has been increasing. All of these factors have created an optimal framework for the development of the Group's streaming media business in the first half of the year.

The Group has been tirelessly developing its streaming media business upon the completion of the acquisition of Ruiyi Films and Pumpkin Films. With serving users as the core, the Group focused on the vertical subscription-only membership system. Through the impeccable production capabilities of Ruiyi Films, combined with the advanced algorithms and the unique ad-free model of Pumpkin Films, the Group aims to continuously provide global users with a great number of quality content along with the ultimate viewing experience, and strives to create a world-class streaming media platform.

1. Content production and online streaming business

1.1 Pumpkin Films

Since the acquisition of Virtual Cinema by the Group, the number of subscribers of Pumpkin Films platform increased significantly through the consolidation of shareholders' ecosystem resources. In the first half of 2021, Pumpkin Films have seen a stable and rapid growth in new members for six consecutive months, with the number of paying subscribers increasing steadily. In June 2021, Pumpkin Films recorded 6.66 million newly registered members and 4.93 million new paying subscribers. As at 30 June 2021, the cumulative number of registered members of Pumpkin Films reached 61.94 million, and the cumulative number of paying subscribers reached 24.62 million, with the number of active paying subscriptions exceeded 10.52 million.

Prior to the acquisition, the cumulative number of registered members of Pumpkin Films in its six years of operations was approximately 29.77 million, while the cummulative number of paying subscribers was approximately 4.32 million. Since the acquisition of Pumpkin Films by the Group in October 2020, the number of registered members of Pumpkin Films grew by 108% in just nine months, while the number of paying subscribers grew by nearly five times.

Management Discussion and Analysis (Continued)

1.2 Ruyi Films

Ruyi Films is a professional film and television production arm of the Group with industry-leading capabilities in research and development, production, as well as promotion and distribution. Since its incorporation in 2006, thanks to its extremely creative scripts, accurate market positioning, professional resource consolidation, standardized production management and intensive experience in promotion and distribution, Ruyi Films has created more than 100 film and television copyrights. It has also invested in and produced numerous extremely influential film and television works, which won numerous important awards, such as Flying Apsaras Awards, Golden Eagle Awards, Magnolia Awards and Huading Awards.

Ruyi Films possesses many competitive advantages. Firstly, by leveraging its experience in standardized production and based on audience segmentation, Ruyi Films has achieved content coverage for different groups by genres. On one hand, its content roster includes youthful masterpieces that focuses on the passion of the young and extols the ordinary slices of life, such as "Hi, Mom" (《你好，李煥英》), "Old Boy" (《老男孩》) and "City of Rock" (《縫紉機樂隊》). On the other hand, it also includes deep and artistic period pieces that tells the stories of Chinese history and the emphasizes on the heritage of nation spirits, such as "All Quiet in Peking" (《北平無戰事》), "Doctor of Traditional Chinese Medicine" (《老中醫》) and "The Legendary Tavern" (《老酒館》). Secondly, Ruyi Films has a team of talented and seasoned producers that are veterans in industrialized film and television production. The producer-centric system creates a complete content production chain that standardizes and refines the production process. This ensures the stable and continuous production of high-quality content, and effectively controls the costs and expenses. Through a scientific production workflow, Ruyi Films maximizes the artistic and commercial value of its works, and continues to promote the development of China's film industry.

In the first half of 2021, Ruyi Films mainly released two films, namely "A Little Red Flower" (《送你一朵小紅花》) and "Hi, Mom" (《你好，李煥英》). In particular, "A Little Red Flower" (《送你一朵小紅花》), which was released on 31 December 2020, recorded a cumulative box office of over RMB1.43 billion, and became the top-grossing film on New Year's Day in 2021 in China. "Hi, Mom" (《你好，李煥英》), which was released on 12 February 2021, recorded a box office of over RMB5.414 billion, and has ranked second in the box office of Chinese movies so far. The film also broke the record of exceeding the box office of RMB5 billion at the fastest pace in Chinese film history. Under the backdrop of continuous sluggish global film and television industry as affected by the pandemic, Ruyi Film's two critically acclaimed box office successes have greatly boosted market confidence, and have addressed the general public's great need for quality works of art.

2. Internet Home Furnishing and Materials Business

The Group was able to meet customers' consumption needs for one-stop home furnishing with its internet home furnishing and materials business which covers categories including customized furniture, complementary household electric appliances, balcony textile art products and soft decorations, decoration engineering and kitchen supplies. In the first half of 2021, the Group has scale up effort in research, development and production of home products, and launched 7 product lines, totaling 140 individual pieces of furniture. Through the model of "store panoramic preview online, model room experience offline", the Group continuously developed itself in a standardized manner and in scale. As at 30 June 2021, the Group has launched its internet home furnishing and materials business in more than 500 projects.

Loan financing

During the six months ended 30 June 2021, no new loan was granted and therefore no interest income was generated for this segment (six months ended 30 June 2020: nil).

Manufacture and sale of accessories

The segment's turnover slightly decreased from approximately RMB22.7 million for the six months ended 30 June 2020 to approximately RMB22.5 million for the six months ended 30 June 2021, representing a decrease of approximately 0.9%. A breakeven was achieved for the six months ended 30 June 2021, with an improvement as compared to the gross loss margin for the six months ended 30 June 2020.

II. BUSINESS OUTLOOK

Looking forward, the management of the Group believes that the streaming media business will further expand. The clear and favorable policies and laws are generating strong momentum for the business's current development. There will be great potential for its future development. At the same time, the awareness of users on paying for quality dramas and films has been increasing and becoming a habit. Streaming media platform has become an important platform for public to enjoy dramas and films. Thus, the Group will continue the vigorous development of its streaming media business.

1. Content production and online streaming business

1.1. Riding the developmental wave of the era

Modern technologies gave rise to a brand new cultural environment and distribution channel for arts of dramas and films. Streaming media platform stands out from others, thanks to its unique content ecosystem and user experience. Meanwhile, with the increasing trend of consumption upgrade, the public's aesthetic standards and artistic qualities also continued to improve. Comparing to medium and short videos, which mainly depend on user-generated content and focus on satisfying users' sensory and entertainment demands over a short period, long videos depend on a professional content production. As a result, long videos are superior in terms of the construction of meta-universes, the representation of ideological values, the completeness of narratives and the transmission of tradition and heritage. Long videos play an irreplaceable role in satisfying the public's increasing cultural needs.

The Group will, adhering to the developmental concept of "technology facilitates innovation while innovation facilitates growth", embrace future technology development and innovation with an open mindset, and produce more popular dramas and movies leveraging on its expertise. Looking forward, the Group will continue to deepen its innovation and applications of smart technology, and use technology to empower the upgrading of the streaming media industry, thereby bringing immersive video viewing experience for users.

Management Discussion and Analysis (Continued)

1.2. Unleashing the competitive advantages of shareholder empowerment

In the first half of the year, the streaming media business of the Group experienced rapid development. At the same time, dramas and movies produced had became critically acclaimed box office successes. While the Group has made a breakthrough in business development, the further investment in the Company by Tencent reflected its recognition on the business development of the Group during the first half of the year, as well as its strong confidence in the future development of the Group. Leveraging on the competitive advantages and strengths of our shareholders in the whole industry chain and relevant digital fields, the Group will further enhance and optimize the upper and lower stream business in the industry chain, as well as online and physical channels. Through resources empowered by shareholders, the Group will establish an efficient and vast library for its streaming content, thus achieving continuous growth in its number of subscribers. Meanwhile, the Group will conduct more in-depth cooperation with Tencent to facilitate the rapid development of the Group. For further details of the said connected transaction and cooperation with Tencent Holdings, please refer to the announcements and circular of the Company dated 20 April 2021, 2 June 2021 and 28 June 2021 respectively.

1.3. Developing competitive advantages

Both Pumpkin Films and Ruyi Films have their own industry-leading competitive advantages, which will be fully consolidated for the integration of the development of two companies in the future. By focusing on differentiated content creation and diversified contents, the two companies steadily and continuously create dramas that are in line with the main trend and popular among subscribers, as well as excellent movies. Both companies will continue to increase its attractiveness to subscribers, build up unique brand image, create core competitiveness and establish strong moat.

Ruyi Films adopts the producer-centric system and has extensive experience in industrialized film production. Through refined division of works, scientific management, standardized production and line production, Ruyi Films is capable to produce films at a lower cost but with high artistic value that bring predictable commercial returns, as well as enable sustainable research and development and production. By collecting the real viewing data of a large number of paid users, the Group analyzes the film types that are popular among users through advanced multi-dimensional algorithm. The Group facilitates data-orientated content production based on the real preference of users. Leveraging on the strong industrialized production capability of Ruyi Films, customized and exclusive contents will be created for Pumpkin Films, thereby creating user-orientated customized content production mode. At the same time, the Group will continue to discover and demonstrate the essence of traditional Chinese culture, promote mainstream values, and actively reflect pursuits of the time. Through modern, artistic and popular production and expression, the Group aims to create resonance between films and audiences and provide a spiritual sustenance for audiences, thus strengthening the cultural identity and cultural confidence of Chinese. The Group will assist in producing excellent Chinese film scripts in China's streaming media industry, and promoting Chinese culture across the world.

Management Discussion and Analysis (Continued)

2. Internet Home Furnishing and Materials Business

Through regulated management and standardized service, the Group plans to expand the number of community and user base that it serves. The Group is expected to gradually serve over 1,300 communities and more than 12 million property owners, and provide quality one-stop fully furnished services. The Group will focus on audience attraction, marketing plan, product management, distributor management, customer service and other fields, and realize digital empowerment, thereby improving marketing conversion rate and customer satisfaction. The Group will expand the application of intelligent technologies such as VR/AR so as to bring new scenario consumption experience for users. Looking forward, the Group will further expand product offerings, and continuously fulfill customers' needs on diversified and customized services. Meanwhile, the Group will also, by fully utilizing its competitive advantages in industry chain resources and strict quality management system, actively create more self-owned home and living brands.

LIQUIDITY, CAPITAL RESOURCES, BORROWINGS AND GEARING RATIO

The Group primarily financed its operations through shareholder's equity, borrowings and cash generated from operations. During the six months ended 30 June 2021, the liquidity of the Group was closely monitored by the Board and the Group reviews its working capital and finance requirements on a regular basis.

Liquidity

As at 30 June 2021, the Group maintained cash and bank balances of approximately RMB598 million (as at 31 December 2020: approximately RMB1,031.1 million). The decrease in cash and bank balances was mainly attributable to the operations of streaming media and related business.

Borrowings and Gearing Ratio

As at 30 June 2021, the Group's net equity amounted to approximately RMB1,993.3 million (as at 31 December 2020: approximately RMB1,183.2 million) with total assets amounting to approximately RMB8,307.0 million (as at 31 December 2020: approximately RMB1,273.2 million). Net current liabilities were approximately RMB842.2 million (as at 31 December 2020: Net current assets were approximately RMB1,156.1 million) and the current ratio was 0.64 times (as at 31 December 2020: 15.8 times). Gearing ratio calculated on the basis of the Group's total debts (interest-bearing borrowings and lease liabilities) over shareholders' funds was 9.2% (as at 31 December 2020: 1.4%).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSAL

Save as otherwise disclosed in this report, the Group did not have any significant investments, material acquisition or disposal of subsidiaries or associates or joint ventures for the six months ended 30 June 2021, and there was no plan authorised by the Board for other material investments or additions of capital assets as at the date of this report.

Management Discussion and Analysis (Continued)

CHARGE OF ASSETS

As at 30 June 2021, the Group did not have any charges on assets (as at 31 December 2020: nil).

COMMITMENT

As at 30 June 2021, the Group had capital commitment of RMB182.67 million (as at 31 December 2020: nil).

CONTINGENT LIABILITIES

The Group did not provide corporate guarantee to its subsidiaries or other parties and did not have other contingent liabilities as at 30 June 2021 (as at 31 December 2020: nil).

CURRENCY RISK MANAGEMENT

The Group had significant amount of assets and liabilities denominated in Renminbi ("**RMB**") during the six months ended 30 June 2021. The content production and online streaming business is mainly carried out in RMB in Mainland China. Therefore, the Group is exposed to the risk of significant fluctuation in RMB exchange rates. During the six months ended 30 June 2021, the Group closely monitored the fluctuation and does not expect any material fluctuation of exchange rates in the near future, but will continue to monitor it.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2021.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the six months ended 30 June 2021.

Management Discussion and Analysis (Continued)

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2021, the interest and short position of the Directors of the Company in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong) ("**SFO**")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**"), were as follows:

Long positions in shares of the Company:

Name of Director	Nature of interest	Beneficial interest in shares	Approximate % of interest
Wan Chao	Beneficial owner	2,032,000 (Note 1)	0.02%
Huang Xianggui *(Resigned on 11 August 2021)*	Beneficial owner	728,000	0.01%

Note:

(1) As at 30 June 2021, Mr. Wan Chao was interested in 2,032,000 shares of the Company, of which 1,592,000 shares was directly held by Mr. Wan Chao himself and 4,400,000 shares were deemed interests held though his spouse, Ms. Hu Zhengrong.

Long positions in shares of China Evergrande Group, the controlling shareholder of the Company:

Name of Director	Nature of interest	Beneficial interest in shares	Approximate % of interest
Huang Xianggui *(Resigned on 11 August 2021)*	Beneficial owner	2,300,000	0.02%
Chau Shing Yim David	Beneficial owner	1,000,000	0.01%
Xu Wen	Beneficial owner	691,935	0.01%

Long positions in shares of Evergrande Property Services Group Limited, an associated corporation of the Company:

Name of Director	Nature of interest	Beneficial interest in shares	Approximate % of interest
Xu Wen	Beneficial owner	1,000,000	0.01%

Long positions in shares of China Evergrande New Energy Vehicle Group Limited, an associated corporation of the Company:

Name of Director	Nature of interest	Beneficial interest in shares	Approximate % of interest
Huang Xianggui *(Resigned on 11 August 2021)*	Beneficial owner	57,500	0.00%

Management Discussion and Analysis (Continued)

Debentures of China Evergrande Group, the controlling shareholder of the Company:

Name of Director	Nature of interest	Amount of debentures
Xu Wen	Beneficial Owner	HKD 23,000,000

Save as disclosed above, as at 30 June 2021, none of the Directors of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations that were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2021, shareholders who had interests or short positions in the shares or underlying shares of the Company of 5% or more which fell to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO, were as follows:

Interest in the shares and underlying shares — long positions

Name of shareholder	Number of ordinary shares held	Deemed interests in number of shares	Total	Capacity	Approximate percentage of issued share capital of the Company
China Evergrande Group	3,468,029,199	—	3,468,029,199	Interest of a controlled corporation	37.55%
Solution Key Holdings Limited (Note 1)	3,468,029,199	—	3,468,029,199	Beneficial owner	37.55%
Ke Liming	—	3,727,381,250	3,727,381,250	Interest of a controlled corporation	40.36%
Virtual Cinema Holding Limited (Note 2)	3,727,381,250	—	3,727,381,250	Interest of a controlled corporation	40.36%
Pumpkin Films Limited (Note 3)	3,727,381,250	—	3,727,381,250	Beneficial owner	40.36%
Tencent Holdings Limited	1,560,857,236	—	1,560,857,236	Interest of a controlled corporation	16.90%
Water Lily Investment Limited (Note 4)	1,560,857,236	—	1,560,857,236	Beneficial owner	16.90%

Management Discussion and Analysis (Continued)

Note:

(1) Solution Key Holdings Limited is an indirect wholly-owned subsidiary of China Evergrande Group.

(2) Virtual Cinema Holding Limited is wholly-owned by Mr. Ke Liming.

(3) Pumpkin Films Limited is wholly-owned by Virtual Cinema Holding Limited.

(4) Water Lily Investment Limited is an indirect wholly-owned subsidiary of Tencent Holdings Limited.

Save as disclosed above, as at 30 June 2021, the Company had not been notified by any person who had interests or short positions in the shares and underlying shares of the Company which fell to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by Company under Section 336 of the SFO.

ISSUE OF WARRANTS IN CONNECTION WITH THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF VIRTUAL CINEMA ENTERTAINMENT LIMITED

On 26 October 2020, the Company, a wholly-owned subsidiary of the Company, Mr. Ke and Pumpkin Films Limited (collectively with Mr. Ke, the "**Sellers**") entered into a sale and purchase agreement, pursuant to which the Group conditionally agreed to acquire, and the Sellers conditionally agreed to sell, among others, the entire issued share capital of Virtual Cinema Entertainment Limited (together with its subsidiaries and variable interset entities controlled by it, the "**Pumpkin Group**") at the total consideration of HK$7,200,000,000 (the "**Consideration**") to be satisfied by the way of allotment and issue of the consideration shares and the warrants to the Sellers (the "**Acquisition**").

Upon the share consolidation of the Company on the basis that every ten (10) issued and unissued existing shares be consolidated into one (1) consolidated Share taking effect and all conditions under the aforesaid sale and purchase agreement having been fulfilled, on 20 January 2021, the Consideration was settled by way of issue and allotment of (i) 1,154,330,943 existing shares of the Company and (ii) 1,834,279,307 warrants (representing 1,834,279,307 existing shares in the form of warrant shares; and divided into three tranches of 611,426,436 warrants for tranche 1, 611,426,436 warrants for tranche 2, and 611,426,436 warrants for tranche 3) at the warrants exercise price of HK$0.96 (the "**Warrants**"), to the Sellers. The Warrants under each tranche shall only become exercisable in whole or in part by the holder(s) thereof upon fulfillment of the relevant Warrants exercise conditions and during the relevant exercise periods, with the earliest being the six month period commencing on the date when the accounts of the Pumpkin Group for the financial year ended 30 June 2021 will be made available.

Management Discussion and Analysis (Continued)

As none of the Warrants have become exercisable, there are no outstanding Warrant as at the end of the Reporting Period. Solely for illustrative purpose, the table below sets forth the changes in shareholding structure of the Company assuming that the Warrants have become exercisable, and had been fully exercsied as at the end of the Reporting Period:

Shareholder	As at the date of this report Number of shares of the Company	 Approximate %	Immediately upon the exercise of the Warrants in full at the end of the Reporting Period Number of shares of the Company	 Approximate %
China Evergrande Group	3,468,029,199	37.55%	3,468,029,199	31.33%
Tencent Holdings Limited	1,560,857,236	16.90%	1,560,857,236	14.10%
Mr. Ke	1,893,101,943	20.50%	3,727,381,250	33.67%
Sub-total	6,921,988,378	74.96%	8,756,267,685	79.11%
Public	2,312,659,167	25.04%	2,312,659,167	20.89%
Total	9,234,647,545	100.00%	11,068,926,852	100.00%

As stated in Note 23(b) to the Condensed Consolidated Interim Information contained in this report, the effect of the exercise of Warrants was not included in the calculation of dilutive loss per share as they are anti-dilutive during the period ended 30 June 2021.

For further details on the aforesaid Acquisition, please refer to the announcements of the Company dated 27 October 2020, 29 December 2020, 18 January 2021, 26 January 2021 and the circular of the Company dated 31 December 2021.

SHARE-BASED PAYMENTS

2013 Option Scheme

The Company's share option scheme (the "**2013 Option Scheme**") was adopted pursuant to a resolution passed by the Shareholders on 31 October 2013. The purpose of the 2013 Option Scheme is to provide incentives to eligible participants. During the six months ended 30 June 2021, no option had been granted and there was no outstanding share option of the Company as at 30 June 2021 (as at 31 December 2020: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group employed approximately 530 employees. The remuneration policy of the Group is to reward its employees with reference to their qualifications, experience and work performance as well as to market benchmarks. Employee benefits include medical insurance coverage, mandatory provident fund and share option scheme. Total staff costs for the six months ended 30 June 2021, including directors' emoluments, amounted to approximately RMB59.4 million.

Management Discussion and Analysis (Continued)

EVENTS AFTER THE END OF THE REPORTING PERIOD

Up to the date of this report, no material events occurred after the reporting period.

DISCLOSURE OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

During the reporting period and up to the date of this report, the directors of the Company are as follows:

Executive Directors

Mr. Ke Liming *(Chairman of the Board; appointed with effect on 11 August 2021)*
Mr. Xu Wen *(Former chairman of the Board, resigned as the chairman with effect on 11 August 2021 but remain as an executive Director)*
Mr. Huang Xiangui *(Resigned with effect on 11 August 2021)*
Mr. Wan Chao
Mr. Chen Cong *(Appointed with effect on 20 January 2021)*

Independent Non-executive Directors

Mr. Chau Shing Yim, David
Mr. Nie Zhixin
Mr. Chen Haiquan
Professor Shi Zhuomin

Since 27 April 2021 (being the date of publication of the annual report of the Company for the financial year ended 31 December 2020), there has been no change in the information of the Directors as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

APPOINTMENT OF EXECUTIVE DIRECTOR AND CHAIRMAN AFTER THE REPORTING PERIOD

Reference is made to the announcement dated 11 August 2021 (the "**Announcement**") of the Company in relation to, inter alia, the appointment of Mr. Ke Liming ("**Mr. Ke**") as an executive Director and chairman of the Board. The Company would like to provide additional information in relation to the biographical details of Mr. Ke as follows: As at the date of the Announcement and this report, Mr. Ke was of age 38. Save as disclosed above, all other information and content set out in the Announcement remain unchanged.

Management Discussion and Analysis (Continued)

REVIEW OF INTERIM RESULTS

The interim financial information of the Company for the six months ended 30 June 2021 has been reviewed by the audit committee of the Company (the "**Audit Committee**"), which comprises the three Independent Non-executive Directors of the Company. The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group, and discussed legal and compliance, internal controls, risk management and financial reporting matters including the review of the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2021.

CORPORATE GOVERNANCE

The Board considers that good corporate governance practices are crucial to the smooth and effective operation of the Group and the safeguarding of the interests of the shareholders and other stakeholders of the Company. The Company has put in place internal policies to ensure the compliance and has adopted and complied with the code provisions set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") during the six months ended 30 June 2021 except for the following deviations from the Code provision:

- Code provision A.2.1 stipulated that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the six months ended 30 June 2021, the Company has no such title as chief executive officer. The overall responsibility of supervising and ensuring that the Group functions in line with the order of the Board in terms of day-to-day operation and execution is vested in the Board itself.

- Code provision E.1.2 stipulated that the chairman of the board should attend the annual general meeting. During the six months ended 30 June 2021, Mr. XU Wen, the chairman of the Board, was unable to attend the annual general meeting held on 28 June 2020 due to immigration restrictions under the COVID-19 pandemic. Mr. CHAU Shing Yim, David (an independent non-executive director, the chairman of the Audit Committee and the chairman of the Remuneration Committee) attended the 2021 annual general meeting and served as the chairman of the meeting. The Board believes that Mr. CHAU Shing Yim, David has sufficient ability and knowledge to answer questions at the 2021 annual general meeting. Therefore, the good communication established between the Company and the shareholders is not affected.

COMPLIANCE WITH THE MODEL CODE

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. The Company, having made specific and cautious enquiries, confirmed that all Directors had complied with the Model Code for the six months ended 30 June 2021.

Management Discussion and Analysis (Continued)

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE WEBSITE

This interim results announcement is also published on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.htmimi.com). The interim report containing all information required by the Listing Rules will be dispatched to the Shareholders and will be available on websites of the Stock Exchange and the Company in due course.

FORWARD LOOKING STATEMENTS

There can be no assurance that any forward-looking statements regarding the business development of the Group set out in this Management Discussion and Analysis or any of the matters set out therein are attainable, will actually occur or will be realised or are complete or accurate. Shareholders and/or potential investors of the Company are advised to exercise caution when dealing in the securities of the Company and not to place undue reliance on the information disclosed herein. Any holder of securities or potential investor of the Company who is in doubt is advised to seek advice from professional advisors.

APPRECIATION

The Board would like to express its sincere gratitude to our shareholders, investors, employees and business partners for their continuous support.

By Order of the Board
HengTen Networks Group Limited
Ke Liming
Chairman

Hong Kong, 30 August 2021